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with Shopping Center Age
The newsmagazine for retail management
May 1988

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GUESS WHO'S COMING TO THE STRIP?

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SUPERMARKETS RIDE ON DEBIT CARD BANDWAGON

BUT GENERAL MERCHANDISE RETAILERS TAKE A MORE CAUTIOUS APPROACH

It is still something of an oddity. A shopper at a California supermarket pays for her groceries without cash, without a check and without even a credit card.

Instead, she swipes her bank debit card—the same one she uses to get cash from the automatic teller machine down the block—across a magnetic reader, punches in a personal identification number (PIN) and the purchase price is deducted automatically from her checking account.

Though Dublin, Calif.-based Lucky Stores has allowed customers to use this method of payment in its 350 supermarkets since 1986 (*see accompanying story*), debit card use is still a relative retail rarity. Five years from now, however, nationwide debit card transactions at retail are forecast to total 128 million per month.

According to the Electronic Funds Transfer Association (EFTA), more than 1.5 billion point-of-sale transactions in 1992 will use debit cards, instead of more traditional forms of payment. Today, only 1.5% of all retail POS transactions use debit cards, says EFTA. In five years, debit transactions will account for 8.5% of the total.

Despite that growth, however, debit cards will not invade general merchandise retailing with the same ferocity that they will charge into supermarket and convenience store formats, notes EFTA.

Debit card use at POS

These are some of the preliminary conclusions from a continuing research project conducted for EFTA by Torrance, Calif.-based Benton International. Thus far, the study has polled supermarket, gas station and airline executives, quizzing them on estimates for future debit card use.

Speculation about debit cards' future is growing perhaps even faster than customers are using them. Thanks to bank automatic teller machines (ATMs), customers are now familiar with the debit card concept. The jump to using them at retail POS, electronic funds transfer boosters say, does not require a big leap of imagination.

Chase Manhattan Bank has already climbed onto the bandwagon. Chase, which offers a debit card to retailers, tops advertising for its new product with a headline reading: "In the 1950s, a small piece of plastic revolutionized retailing in America. In the 1980s, it's happening again."

The banks have a vested interest in the success of debit cards. After years of touting the use of checks, the financial institutions are suffering from high costs incurred in processing those paper transactions. Debit cards are the best way for them to reduce those costs.

Some banks, including Midway National Bank of St. Paul, Minn., and the Iowa-based SHAZAM regional system, expect to offer debit and credit card combinations, called com-

Retailers pay their bills electronically, too

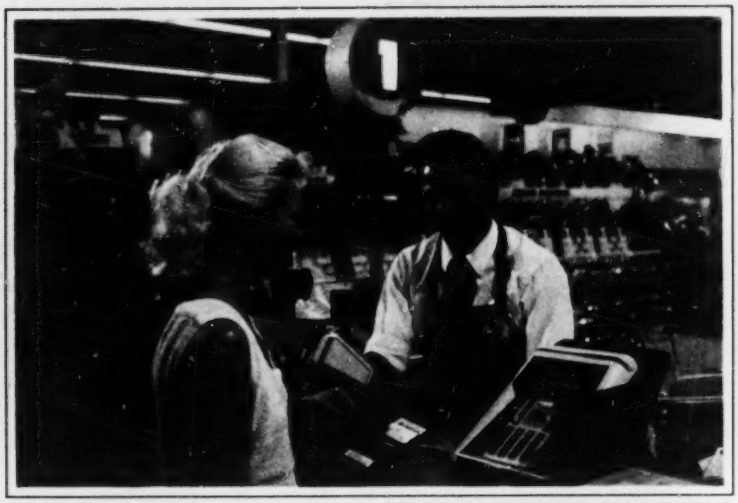
At the annual National Retail Merchants Association (NRMA) convention in New York, retailers chuckled when vendors suggested that quick response systems and electronic data interchange (EDI) would result in quicker payment of vendor invoices.

The not-too-private joke was that department stores—rightly or wrongly—are often criticized for slow payment. Any system that would upset their traditional leisurely payment pace, the joke went, was obviously doomed to failure.

Retailers, nonetheless, have been quick to cash in on the payback from electronic fund transfer (EFT) systems. Altogether, about 350-400 companies are using corporate trade programs that electronically remit payments and supporting invoice data directly to vendors.

Chicago-based Sears, Roebuck, the nation's biggest retailer, began using the automated clearing house (ACH) network for fund transfer to vendors in mid-1983. About 150 vendors are signed up on the Sears plan. In addition, Sears uses the network for certain payroll and pension payments.

The payoff for retail companies using electronic corporate trade programs is less costly check processing and mailing. Transmitting funds electronically, however, does not mean that retailers are paying bills any quicker. Invoices are paid with the same speed—or lack of it—as always. All that changes is the form of payment.



LUCKY STORES: PROCESSING 30 MILLION DEBIT CARD TRANSACTIONS THIS YEAR

bo cards, before year's end.

With combo cards, a customer can use the same card either as a traditional credit card or as a debit card, in which case the purchase price is deducted from her bank account electronically. The customer makes the decision whether to go credit or debit at the time of purchase.

Some of the big oil companies—Amoco, Exxon and Mobil Oil—are offering combo cards already. In these instances, the advantage for the customer is the gasoline industry's two-tier pricing system: Debit card users get to buy gas at the same reduced price as cash customers.

Atlantic Richfield, in still another wrinkle, accepts some bank debit cards at its California AM/PM convenience stores and ARCO gasoline stations. At present, ARCO is processing nearly 18 million debit card transactions annually.

Visa and MasterCard, meanwhile, are creating ENTREE, what they hope will be a universal service mark for their debit card switches. "When MasterCard and Visa get behind a program like ENTREE," says Robert A. Mooney, EFTA chairman and president of Dallas-based J. C. Penney Systems Services, "there's going to be a lot of promotion with that, and people are going to start to understand what debit cards are all about."

According to the EFTA/Benton study, there are already 160 million debit cards in circulation. The cards are used most frequently to operate bank ATMs. By 1992, however, the research indicates that there are likely to be 250 million debit cards in circulation, or about one debit card for every single American.

On average, according to the research report, a typical family now has 9.6 financial transaction cards. In 1992, the typical household will have 11 financial transaction cards. And while only 33% of current debit cards actually are used in an average month, five years from now 55% will be in active use, the study says.

But for all the flurry of activity swirling around debit cards, the transition will not be quick, and it will not affect all retail formats equally.

"First of all, consumers are fairly happy with the payment alternatives that they have," Mooney says. In addition, retailers are facing a "chicken and egg" problem with debit card adoption. Retailers are asking themselves, "Do we want to go out and develop an interface with each debit card provider and spend $100,000-$200,000 and then wait for the business to grow?" according to Mooney.

Penney, along with virtually all the big department and discount stores, has decided to wait for customer demand to grow before making the investment. Mass merchandisers, says Mooney, will be among the last to convert to debit cards. "The consumable goods organizations—supermarkets, convenience stores and fast-food outlets—typically have been paid in cash, and this is where the debit card is having an impact."

"Even if you think of supermarkets alone, there are probably more transactions in supermarkets than all other transactions in retail establishments of any kind in the United States," Mooney says. "If debit cards take off in the supermarket industry, you could very quickly see hundreds of millions of transactions." ■

Lucky at cards: A successful customer service program

"It's one damned successful program." Without mincing words, that is how Dublin, Calif.-based Cetron Transaction Services marketing director Rawleigh Fjield sums up Lucky Stores' experience with debit cards. The program has proved so successful that the California supermarket chain late last year created subsidiary Cetron to sell its debit card technology to other retailers.

Lucky began its experiment with debit cards in 1984, with chainwide implementation coming in 1986. This year the supermarket should process more than 30 million debit card transactions, Fjield says.

"If truth be known to the real world," she says, "the program at Lucky was developed more as a merchandising and marketing tool than for any of the other benefits usually associated with debit cards."

Especially in the highly competitive southern California market, Lucky was looking for a way to distinguish itself from the competition. Initially, it created "Easy Check-Out," Lucky's name for the debit card program, as part of a customer service strategy.

Debit cards have picked up some surprising fans at the supermarket. Senior citizens, in particular, seem attracted to Lucky's Easy Check-Out program, Fjield says. Older shoppers are using their debit cards at the checkout as sort of "human ATMs." Seniors uncomfortable with using bank automated teller machines instead are going to the supermarket to get cash, she says. While they are there, seniors do some shopping, too.

USDA STICKS TO ELECTRONIC FOOD STAMPS TESTS

DEBIT CARD-BASED SYSTEM WINS PRAISE FROM STORES, BANKS AND USERS

The two-year test was a rousing success. So when the United States Department of Agriculture's (USDA) pilot study of debit card-based food stamps ended, Pennsylvania politicos decided to continue the program on their own. It looked like a good bet.

Local retailers liked the pilot study. So did the banks. Even food stamp recipients sang praises for the trial that replaced paper food stamps with debit cards. The only problem: The electronic food stamp program cost the state, on the average, nine times more than the old paper-based system.

That has not deterred Pennsylvania authorities, who are flirting with the idea of expanding electronic food stamps statewide. Neither has it stopped the USDA from authorizing an additional nine electronic food stamp pilots across the country.

"Electronic food stamps are very much a part of the future," says Michael Gorshe, store operations director for Cincinnati-based Kroger Stores.

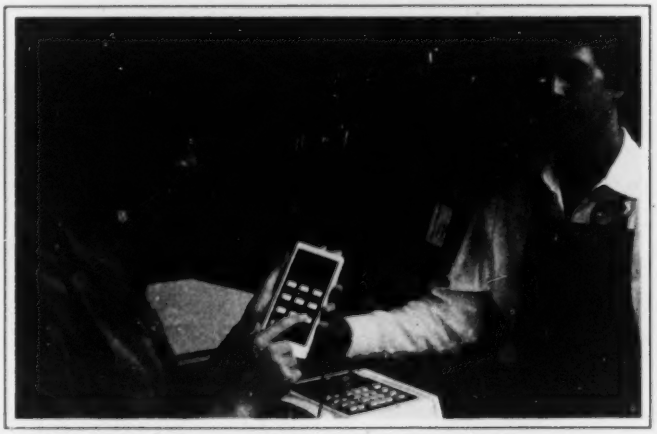
Much of the enthusiasm for debit card-based food stamp programs stems from the belief that economies of scale ultimately will make electronic food stamps an attractive, if not inevitable, alternative.

The Pennsylvania experiment, beginning in October 1984, involved only 3,400 food stamp recipients in Berks County, which includes the city of Reading. Since then food stamp participants have been receiving debit cards instead of the common paper Department of Agriculture scrip.

At the start of each month, Pennsylvania authorities credit each recipient's electronic food stamp account with his usual benefit dollar amount. When shopping at any of 140 participating retail outlets, electronic food stamp customers use state-issued debit cards to make qualified food purchases.

At the point-of-sale, food stamp participants pass their card though a magnetic reader to verify it as an approved account, then enter a personal identification number (PIN), which also is verified.

With this go-ahead authorization, the grocery clerk enters the purchase total on a terminal connected to the state's electronic benefit transfer (EBT) computer. The EBT center computer then checks the recipient's food stamp account, subtracts the purchase price, and credits the retailer's account. (Retailers get their funds overnight through the Automated Clearing House.)



AT POS: FOOD STAMP CUSTOMER ENTERS PIN NUMBER

Finally, the terminal prints out a receipt, showing both the current purchase total and the amount remaining in the customer's electronic food stamp account.

The Berks County/USDA demonstration ran from October 1984 through December 1986, when Pennsylvania took over the project itself. Since July 1987, the state has run the food stamp program on-line with a 2-processor Tandem TXP using MTech ACTION2000 EBT software.

The USDA paid for additional POS hardware at the retail level. Altogether, investment in the initial USDA demonstration project cost federal and state officials about $3 million.

Though Alan Harris, Tandem's state and local governments marketing manager, says that Pennsylvania's debit card-based system's costs have been trimmed in the last year, other sources report that the electronic food stamp program is still significantly pricier than the traditional program. On the average, according to the USDA, food stamp programs cost the government about three dollars per household to operate.

For the supermarket retailer, however, electronic food stamp programs are an unqualified success, Harris says.

With a debit card-based food stamp program, says the Tandem official, retailers do not have to tally and deliver coupons to the bank at the end of the day, saving labor costs. In addition, supermarkets can access their funds though the Automated Clearing House overnight.

Also eliminated is the need to return cash to food stamp customers who make small purchases with large value coupons. Checkout time is reduced.

In addition, Harris says, food retailers accepting food stamp debit cards can track transaction information by shift or processing date, preauthorize the level of access to transaction information, and gain complete food stamp transaction reports.

That adds up to savings for the supermarket operator, he says. According to a USDA-commissioned study done in 1987 by Boston-based Abt Associates, debit card-based food stamp programs such as the Berks County project on the average cost retailers $13.32 per $1,000 of food stamp transactions. For comparison, paper coupons cost supermarket retailers an average $17.74 per $1,000 in food stamp sales (*see accompanying chart*).

In surveys that Abt conducted in Berks County, it discovered that 66% of retailers, banks and food stamp recipients all gave positive votes to the electronic distribution system.

"The retailers' main reason for preferring EBT," says the Abt report, "is that it reduces the irritating post-sale

handling effort required for coupons. They also value what they perceive as substantial reductions in fraud and abuse with EBT."

Banks, the report says, are pleased to have their food stamp issuance role eliminated. Recipients, meanwhile, believe that the debit card system is easier to use than the coupon system, according to the Abt study.

Food stamps: Relative costs

	Paper coupons	Debit cards
Retailer's cost per $1,000	$17.34	$13.22
Banks cost per $1,000	5.96	0.40
Recipients cost per month	2.21	0.26
Monthly diversions per case	3.97	1.13
Monthly losses per case	0.13	0.03

Source: Abt Associates

It is government administrators, however, who ultimately must be convinced that electronic food stamp programs will save money for the taxpayers.

There seems to be little doubt in government administrators' minds about the benefits of the electronic food stamp experiment.

States eliminate the cost of distributing, storing, inventorying and destroying coupons. They eliminate theft, trafficking and unauthorized purchases. They can change benefit levels instantly. Each function, however, comes with a price. In the Berks County test it was a high one.

Tandem's Harris says, and the Abt report concurs, that the Berks County programs costs are inflated above what a full scale EBT system would cost if broadly instituted.

The limited scope of the program, according to Abt, contributed to an increase in unit costs. In addition, because the test was originally supposed to run for only one year, equipment was obtained through relatively expensive, one-year leasing arrangements.

Since the program was being created from scratch, the report continues, staff assigned was more skilled (and more highly paid) than would normally be the case in a routine, ongoing program.

"Unit costs," Abt says, "clearly would be lower in a large-scale electronic food stamps system."

Nationwide, about 1 in every 13 Americans, or 19 million people, receive food stamps from the USDA. The program costs the government approximately $12 billion annually—reason in itself to search for cost-cutting corners.

Also under consideration by the USDA is the use of off-line "smart cards." But with the public's growing acceptance of debit cards, on-line systems look like the favorite to win out.

An advantage for the debit card system is that some supermarket retailers, most notably, Dublin, Calif.-based Lucky Stores, already have debit card systems in place for cash customers.

Electronic food stamp debit cards could be piggy-backed onto existing store systems, reducing start-up costs. The expense of some terminals would be shared with other users.

"Operators of commercial systems would welcome the piggybacking because it would increase their transaction volume and reduce average costs," says the Abt report.

If electronic food stamps are to become reality, however, they must hurdle still one more obstacle. The 25-year-old legislation that created food stamps never envisioned a paperless, electronic age. It authorizes the distribution only of paper coupons.

Congress itself will have to authorize electronic payments. ■

WANT TO BUY IT? CALL TOOTIE

HSC'S VRU KEEPS PHONES RINGING

If a shopper were to hear the name Tootie, she might think it was some new-fangled child's toy or maybe a new flavor of bubble gum. If, however, she is a regular viewer of Home Shopping Club, she would recognize the name instantly.

Tootie is a voice response unit (VRU) developed by Clearwater, Fla.-based Precision Software Inc., which was recently acquired by Home Shopping Network, HSC's parent company. (HSC is a 24-hour television show during which viewers can shop via telephone.)

In fact, when a shopper calls HSC's toll-free number, hearing Tootie's voice is music to the ears of these television mail order junkies.

"Welcome to the Home Shopping Club. This is Tootie. You can talk with me by pushing the buttons on your touch-tone telephone."

It was developed primarily to make order-taking faster and more efficient for the club's some two million members who tune in regularly.

In fact, the membership of the show has taken on an explosive growth. At the end of 1986 the count was 520,000. At the end of 1987, it more than quadrupled to 2.6 million. (HSN's sales for the fiscal year ending Aug. 31, 1987 increased to $582 million, up 363% from the $160.2 million reported in the same period last year. Net income also increased to $29.5 million, up 174% from $17.0 million last year.)

As a result of this increase, HSN's management was searching for an alternative to its human telephone operators. The lack of floor space in the studio and the lack of personnel made it nearly impossible to handle the deluge of calls it was receiving daily.

Tootie was introduced in July 1987 to solve some of HSN's problems.

Since then, Woody Boyd, president of PSI, says that Tootie has been able to handle up to 50% of the incoming orders, thus reducing HSN's labor costs.

Tootie is comprised of 64 microcomputers, each of which can handle up to 24 calls simultaneously. These microcomputers are linked directly to a mainframe system also located in Clearwater. (The average cost to install a VRU system that has fewer than 12 telephone lines is $3,000 per line. At quantities above 200 lines the cost decreases to $1,600 per line.)

"In the beginning, our goal was to have 25% of the calls handled by Tootie. We never thought we would even reach 40%. There are even peak periods when Tootie can take up to 75% of the orders," confirms Boyd.

In addition, a VRU like Tootie saves the company between 30% and 50% on its telephone bills. This is because the average call taken by Tootie lasts approximately 55 seconds. Unlike a human operator, the customer responds only to the questions asked, and cannot remain on the phone longer, due to irrelevant conversations with the operator.

For example, after Tootie intro-

DO HISPANIC SHOPPERS USE COUPONS?

MANUFACTURERS AND RETAILERS DON'T ALWAYS AGREE ON THE ANSWER

For one Mexican-American grocery store operator in Los Angeles, it all came down to $1.40. This time, the angry grocer decided, he would take his multi-million dollar adversary to court.

The independent grocer filed papers with the local small claims court. In his complaint, he charged that one of the country's biggest cereal manufacturers repeatedly refused to honor the cents-off coupons customers had redeemed at his neighborhood food store.

As evidence, the grocer submitted coupons—totaling $1.40—along with invoices proving that he actually had sold the merchandise.

To the local grocer's bewilderment, the cereal company jetted a lawyer cross-country to represent its interests at the court proceeding. The judge, however, was unimpressed and ruled in the local food retailer's favor. The cereal maker paid him $1.40.

What happened the next time the Mexican American grocer tried to redeem coupons from the same manufacturer? They were sent back unpaid.

"Because there has been this idea that Hispanic shoppers do not redeem coupons," says Gloria Alvarez, executive director-operations for Los Angeles-based Mexican American Grocers Association, "the major suppliers would not reimbuse [Hispanic grocers.]"

Do Hispanic shoppers use manufacturer cents-off coupons? Common wisdom agrees with the cereal maker and says that they do not. Others, especially Latinos themselves, say that Hispanics are enthusiastic coupon redeemers.

With Hispanic-American shoppers in an average week spending more than $500 million at grocery stores nationwide, finding the right answer to the coupon question is no mere academic exercise.

Latino shoppers, according to the Simmons Study of Media and Markets, buy up to four times as much baby food and fruit nectars as the average U.S. family. They buy twice as much canned spaghetti and pancake syrup (*see accompanying chart*). Yet manufacturers have been slow in using coupons to generate Hispanic brand loyalty.

"Some Hispanic consumer groups are beginning to question whether coupons are really a subsidy for the Anglo consumer," Alvarez says.

"The manufacturer is subsidizing [Anglo] food purchases, but not making coupons available to the Hispanic consumer. Is this prejudice, is this racism, is it ignorance? I don't know," she says.

According to Chris Linskey, vp and general manager at El Monte, Calif.-based Tianguis, Vons' two-store Hispanic supermarket subsidiary, the lack of couponing to the Latino community is a reflection only of that customer's lack of interest in using coupons.

"We've had serious efforts and did some good calculative tests last year for ourselves, and there is not a great deal of coupon usage by Hispanic customers in Los Angeles, regardless of the vehicle," Linskey says.

On the average, coupon redemption rates at Tianguis stores are only 6% of those at traditional Vons supermarkets, he says.

"We do not do well with the Carol Wright Hispanic coupons, we don't do well with our own coupons," Linskey says.

"The problem is not with coupons, the problem is with their dependency on any kind of print publications," he says.

"They [Hispanics] don't have magazine subscriptions, they don't have newspaper subscriptions, they don't utilize the newspapers very much," Linskey says.

"That is only a polite way of saying, 'They can't read,'" counters Anthony Mercado, director of Donnelley Marketing's Carol Wright Hispanic coupon-by-mail marketing program. "Linskey is stereotyping," Mercado responds.

"Yes, they say that Hispanics do not coupon," Mercado says, "well,

Hispanics spend more on groceries
(100 = U.S. median)

Product	Index
Baby food	423
Fruit nectars	396
Canned spaghetti	289
Pancake syrup	150
Mayonnaise	137
Dry mix salad dressing	136
Soft drinks	133
Yogurt	133
Margarine	126
Hot dogs	125
Frozen pizza	125
Corned beef	116
Canned soup	111

Source: Simmons Studies of Media & Markets, Strategy Research Hispanic Market Study

Carol Wright Hispanic mailings reach 3 million Hispanic households out of a possible 5.1 million. The fact is, Hispanics are enthusiastic redeemers of coupons. Eighty-eight per cent of Carol Wright Hispanic recipients use coupons, compared to 79% for the regular mailing," Mercado says.

In fact, the Donnelley Marketing exec says, Hispanics in his samples are more likely to be heavy coupon users than are Anglo families. Nearly 42% of the Carol Wright Hispanic list uses five or more coupons weekly, Mercado says.

This compares to only 26% of the total U.S. population that reports using five or more coupons a week, according to Donnelley research (*see accompanying chart*).

Mexican-Americans, according to the Carol Wright exec, are the heaviest coupon users among U.S. Hispanics, followed by Cuban Americans and Puerto Ricans living in the 50 states.

"Here is a population that is spending half a billion dollars each week on groceries," he says. "I cannot believe that they're not sensible enough to go out and use some method of discounting in order to supplement those groceries. Some of it is just common sense," says Mercado.

Tianguis' Linskey agrees that the Latino customer is a value-conscious shopper, but does not think that couponing is the only method of smart shopping.

"The Hispanic customer is much more in tune with value and being a smarter shopper than the Anglo customer because [Hispanics are] working with a restricted income," he says.

"Coupons are something that seem effective in the general market, they're not effective here. It's only one marketing tool," Linskey says.

"Rather than beat your head against the wall and try to make something work that there's a lack of interest in, there are other marketing opportunities, so that's what we concentrate on," he says.

In-store demonstrations, says Linskey, move twice as much product in Tianguis supermarkets as Carol Wright coupons. In addition, Tianguis uses bilingual direct mailings as well as all-Spanish radio ads. Soon, it will begin airing its first television commercials, also entirely in Spanish.

Mercado, meanwhile, maintains that couponing to the Hispanic customer is still an effective marketing tool for both the retailer and the product manufacturer.

"Couponing brings a new level of sophistication to Hispanic marketing," he says. "In the past we've had radio and TV, and I think we've been content with that, but now we have couponing that is a measureable vehicle."

It is the ability precisely to measure coupon redemption rates that makes Mercado confident that he is reading the Hispanic market's interest in coupons accurately.

Lever Brothers, he says, reports that identical national coupons for Wisk and Surf detergents and Dove soap have redemption rates in Carol Wright Hispanic mailings of 17%, 14% and 16%, respectively—in each case somewhat higher than the redemption rates in the regular Carol Wright mailings.

Eighty-four per cent of Carol Wright Hispanic coupons, Mercado says, are redeemed in supermarkets. Another 28.1% are used in drug stores, 20% in neighborhood grocery stores and 11.6% in department stores (*see accompanying chart*).

Independent grocery stores still have the most problems getting coupons redeemed by manufacturers. "There's a tremendous fear of not being reimbursed," says the Mexican American Grocers Association's (MAGA) Alvarez.

"If they [manufacturers] expect the retailer to act as their sales agent for their product and the coupons that are distributed, then they need to support the retailers and reimburse them for the coupon that they take," she says.

To counteract some of the resistance from manufacturers, MAGA is starting a coupon clearing house of its own. In addition, it has a four-year-old program to encourage coupon use in the Hispanic community.

In the meantime, Alvarez sums up communication from manufacturer to independent Hispanic grocers this way: "Your store's name is Gomez Market, and we don't believe that Gomez Market does any kind of volume, because you can't do volume with that kind of name. And from the little bit of research that we have seen, Hispanics don't redeem coupons, therefore you are not entitled to this money."

And 50%-60% of the time, Alvarez says, the manufacturer then just sends the coupons back. ■